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SUBJECT: Journey to the West -- Beihai: Pearls,
Fireworks, Sand, and Hope But Not a Whole Lot More

REF: Guangzhou 5798 (and previous)

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11. (SBU) Summary: Acknowledging that previous economic development planning has not panned out as expected, Guangxi's Beihai City officials see their economic future in developing labor-intensive light manufacturing and logistic industries based on outside investment -- particularly from over-heated neighboring Guangdong -- and their infrastructure resources. They also want to better use and protect their natural resources to attract more tourists especially to the 24 kilometer "Silver Beach" -- the "best beach in China" but replete with the shells of uncompleted hotels and housing units. The city is competing, however, against ASEAN countries for export market and overseas tourists. The City plans to develop a big deep-water port project, which they hope will become their economic growth engine but the port would also put Beihai into direct competition with other higher-powered coastal cities in South China. End Summary.

By the Sea, By the Beautiful Sea

12. (U) The last stop in Guangxi in Consulate Guangzhou's "journey to the west" (reftel) was in beautiful Beihai where the Municipal Government's Vice Mayor, Commerce Bureau, Tourism Bureau, and a large local enterprise gave us a pretty good view of the economic development prospects for the city. Beihai has a population of 1.4 million people. Officials described Beihai as a small city with a weak industrial foundation and small GDP. The City used to belong to Guangdong Province; in 1965 the Central Government put Beihai under the jurisdiction of Guangxi Zhuang Autonomous Region. The local dialect of Beihai is a branch of Cantonese and retains strong cultural ties with Guangdong Province. Most of the people in Beihai belong to the Han Nationality, and minorities are few, estimated at 3,000 people. Beihai has rich ocean resources including one of China's biggest fishing areas in the Gulf of Tonkin (Beibu Wan), a large number of salt-water pearl farms, and China's biggest mangrove forest.

Slow Growth - High Potential

¶3. (U) Official said the City's future economic growth relies heavily on outside investment because most local enterprises are small and slow to expand, and the Government is not allowed to use its revenues to invest in any enterprise. Beihai boasts -- somewhat dubiously -- that it is the only municipality in China that has a complete infrastructure combination of highway, railway, airport and deepwater port, a combination which should make it highly competitive. The City Government has put the hopes of its economic future into one basket by developing a large port called "Tiechang" that city officials hope can help attract more investment to develop labor-intensive industries in Beihai.

Missing the Boat: Bubbles, Corruption, and Incompetence

¶4. (SBU) In early 1990s, significant inflows of outside investment into the City's real estate industry created a big bubble which exploded in 1995, scaring off investors until today. We saw many unfinished office and apartment buildings in the City and unfinished resort after resort along Beihai's beautiful, 24 kilometer long, Silver Beach during our visit. News reports indicated that Beihai has missed landing several big industrial projects in recent years, including a big petroleum refinery project on which the local government spent three to four years negotiating with China's oil giant Sinopec but on which the city failed to get a green light from Beijing. Beihai's neighbor Fangchenggang won the deal. There also have been news reports of numerous complaints from local residents about the corrupt and incompetent government officials that failed to develop the local economy.

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Trade Up but Pessimism about ASEAN

¶5. (U) In 2005, Beihai's total export volume was USD 130 million, and import volume reached USD 50 million. The United States is Beihai's largest trading partner, accounting for about 27% of the City's foreign trade volume. In 2005, Beihai's export to the United States was USD 41.47 million, and the main products include fireworks, aquaculture products, and textiles. Beihai's total import from the United States was USD 9.96 million, mostly machinery.

¶6. (U) Though Guangxi and its major industrial cities such as Nanning and Liuzhou place great emphasis on the future growth of trade with ASEAN countries, Beihai officials did not look excited about their trade relations with their Southeast Asian neighbors because of similar export product structures. The ASEAN area is only Beihai's fourth largest trading partner. Beihai basically exports pesticide, fertilizer and leather to ASEAN countries, and imports raw materials, such as coal. Its trade volume with ASEAN countries jumped by 50% in 2005, but officials explained that was because its trade volume in the past was so low. Beihai and ASEAN, especially Vietnam, are basically competitors exporting similar fruit and aquaculture products.

Hoping to Get the Surplus Fat from Guangdong

¶7. (U) Beihai is interested in attracting labor-intensive investment from its saturated neighbor of Guangdong or the Yangtze River Delta. Beihai can provide incentives through a favorable tax policy, cheap land, abundant supply of power and labor to outside investors. As a city located in China's Great Western Development Program, Beihai can provide both domestic and foreign investors income tax waiver treatment granted by the Central Government. It can also use incentives as part of the Beibu Wan Development Area. The cheapest land price in Beihai is as low as RMB 25,000 (USD 2,941) per mu (1 mu = 0.17 acre). The City

also has a number of hydroelectricity stations and the unit price for industrial power consumption was only RMB 0.45 (USD 0.05) per kilowatt-hour compared with Guangdong's price of over RMB 0.9 (USD 0.11). Officials expressed their expectation that this combination of incentives would be sufficient to attract new investment. Beihai has a large number of people working as migrants in Guangdong and officials hoped in the future the ideal choice for these migrant people would be to return home to get jobs at newly established enterprises.

¶8. (U) Beihai officials said in recent years the trend had been growing for industrial enterprises to transfer from Guangdong to Southern Guangxi. Officials said the industrialization in Guangdong had developed to certain level and faced shortages of water, power and other resources. As a result, Beihai has managed to attract several Shenzhen enterprises to build factories making purses, cell phone screens and MP4 players. Though Beihai has a long tradition of making fireworks, officials said they were not receiving such enterprises transferring from Guangdong, nor would they approve the opening of new fireworks factory because they would like to move to higher value manufacturing. During a visit to a large firework factory named "Qiangsheng," whose products are mainly for export to the United States and European countries, the management also told us that due to Beihai's interest in developing other industries, the company had recently taken over a firework factory in Hubei Province, rather than expanding in Beihai itself, which would have made more sense in terms of logistics and supply management but which the Beihai government is reluctant to approve.

Comparative Disadvantages

¶9. (U) City officials disclosed Beihai's primary disadvantages in attracting investment are insufficient local shipping and the lack of an industrial infrastructure

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to provide complementary sourcing for manufacturers. Beihai has only two container vessels going to Hong Kong each week and the trip takes over 30 hours compared with highway travel time of seven hours. Some export-oriented enterprises have to use the more costly highway to ship their time-sensitive products to Hong Kong. As Beihai has a poor industrial infrastructure, it is inconvenient for enterprises to find local component suppliers.

Tourism Development

¶10. (U) Beihai has China's longest sightseeing beach, Silver Beach, 24 kilometers long. Its other tourist attractions include a UNESCO-rated mangrove forest, Weizhou Island with diving and European-imperialist era buildings, a big scenic lake, an 1920s-era street that the government is renovating, and a robust supply of seafood and pearls. The City has over 200 hotels with a total number of 27,000 hotel beds. Compared with Hainan Island, whose tourists are more high-end and generally can afford air tickets for their traveling, Beihai officials confessed that they basically receive low-end domestic tourists who drive to Beihai and seek the lowest-cost accommodations.

¶11. (U) In 2005, Beihai received 4.43 million domestic visits (including visitors who traveled there on multiple occasions), an 11 percent growth year-on-year. A large number of the tourists are from neighboring Guangdong, and more and more of them are on driving tours. The number of foreign visitors was only 30,000, and only one third of them were westerners with half of them coming for business and not sightseeing. The remaining two-thirds of overseas visitors were from Hong Kong, Macao and Taiwan.

¶12. (U) Beihai also faces competition from its ASEAN neighbors who boast similar tourist resources. Each year,

about one million Chinese tourists take boats to travel to lower-cost Vietnam via Beihai, while the number of Vietnamese tourists visiting Beihai is very limited. Since last July, ASEAN countries, particularly Vietnam and Guangxi (for China), started discussing the development of a "tourism circle" around Beibu Wan (Tonkin Gulf) to build synergy for the tourist market in the area. City Tourism Bureau officials hope that by 2010, Beihai revenues from tourism will jump up from the current RMB two billion (USD 248 million) to RMB six billion (USD 745 million), and the total number of annual visitors can grow to 10 million, with 100,000 from overseas spending USD 30 million. The officials are paying more attention to the international market and have been actively seeking cooperation with European tourist wholesalers and in developing more backpacker accommodations.

Big Projects

¶13. (U) Besides attracting investment and developing tourism, Beihai plans to initiate the developing of logistics industry, especially a big project called "Tiechang" Port, in the 11th Five-Year Planning Period. Beihai officials hope the project can serve as the City's economic growth engine. The City Government's main investment promotion target is Singapore, which, according to the officials, has close relations with Beihai and is always the first stop for Beihai's overseas investment promotion. Some Singaporean companies have done research about investing into the project.

¶14. (SBU) Currently, Beihai has a port that mainly handles bulk cargo and recorded a volume of seven million tons in ¶2005. Its biggest berth can accommodate 50,000-ton boats. It was only in October 2005 that Beihai opened its first container route, which is connected to Hong Kong, with two trips each week. The port has an annual handling capacity of 50 thousand containers, and handled 30 thousand twenty-foot equivalent units (TEUs) in 2005. The City's bulk cargo can be directly shipped around the world, but for containers, Beihai is just a feeder port for Hong Kong, Shenzhen, or Guangzhou. Surveys performed for the city show that Beihai has the potential to build 200 berths for

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vessels at the 10,000-ton level, and the maximum level could be as high as 200,000-ton. If Beihai could realize its ambitious dream, the ultimate capacity of its port would be comparable to Shanghai's, city officials claimed. Besides the port development project, two railways connecting Beihai with Guangdong and Guangxi's Yulin City will start construction this year. The Government also plans to build a cross-ocean bridge to connect itself directly with Guangdong, though this project seems to be much less likely (not to mention grotesquely grandiose). Beihai hopes all these infrastructure projects will help develop the City's logistics industry and attract more industries to Beihai.

Comment

¶15. (SBU) By putting their hopes primarily on developing deepwater port, Beihai will inevitably run into competition from their neighboring coastal cities with operating ports, such as Fangchenggang in Guangxi, or Zhanjiang in Guangdong. All these ports will compete for the same bulk cargo resources from Southwest China. It is doubtful that foreign investors would really put their money in Beihai for port development in the face of such competition. Similar resources and conditions, such as cheap labor and land, and a favorable deepwater line, will cause other coastal cities in Guangxi to adopt similar development strategies that will put them into competition for similar external resources, such as investment and cargo resources -- particularly since the regional government in Nanning is fairly passive in refereeing such competition, hence

leading to a lot of wasteful utilization of economic planning resources for projects that will most likely not pan out.

¶16. (SBU) Guangdong supplies most of Beihai's tourists and probably much of its future enterprise capital and managerial talent. But Silver Beach was bereft of any such tourists in the late afternoon hours when the Consulate party visited Silver Beach. Scores of pearl sellers thronged around us, and we leveraged their hunger for sales to get some nice bargains. Like these pearl hawkers, Beihai writ large is not in a strong economic bargaining position, and it too is likely to sell its prospects relatively cheaply to more advantaged visitors from Guangdong.

¶17. (U) The topic for our final city-specific message in our "journey to the west" series is actually during our drive homeward towards the east -- Maoming in Guangdong province, where the economic prospects and the professionalism of governmental officials even in this rather obscure part of Guangdong far outshone those in Guangxi.

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